One Eagle Square
Suite 510
Concord, NH 03301-4903

(603) 226-2500
Fax: (603) 226-3676

New Hampshire Center for PUBLIC POLICY Studies

"...to raise new ideas and improve policy debates through quality information and analysis on issues shaping New Hampshire's future."

Room for Improvement: Government Efficiency in New Hampshire

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Executive Summary

As the nationwide economic recession continues to gnaw at state finances, the pressure to evaluate government practices and programs is as great as any time in New Hampshire's history. The goal, summarized in a word, is efficiency: how to maximize resources, reduce wasteful spending and keep offices running smoothly. Such an evaluation can benefit by reviewing past analyses that have identified the problems that have resisted fixing for so long.

Fortunately, in New Hampshire, such a record exists. For decades, the state's governors have periodically aimed to improve the efficiency of state government operations by creating commissions or task forces to review the structure, actions, and performance of state agencies. These reviews date to as early as 1932 and have taken place roughly once a decade since 1950, with the most recent one in 2003. Each of these efficiency reviews has included thorough research for months at a time, enlisting the work of dozens of people over the years.

Certainly, many changes in state government have occurred, as state operations have evolved and several recommendations of past commissions have been implemented. However, a comprehensive review reveals that several overarching issues – a lack of proper staff training and a failure to pursue centralized back-office functions, among others – have persisted over the decades, despite each commission's recommendations for change. In addition, the reports appear to have little lasting impact: Over the course of several weeks, many of the releases proved difficult to locate, and several state researchers were unaware of their existence.

Assessments of New Hampshire's government efficiency come from out-of-state sources, too. In 2008, an analysis by the PEW Center on the States of government performance in each state identified several problems cited by the earlier in-state task forces. In fact, PEW scored New Hampshire lowest of all the states, grading the state D+.

This report takes those previous analyses as a starting point to outline the persisting inefficiencies in state government and describes some remedies recommended numerous times by past commissions. It also highlights the state's flawed past experience with one efficiency-promoting recommendation now receiving new attention in the Legislature: performance-based budgeting.

We hope this review will set the stage for future conversations about reforming state government: how to make it more efficient, more cost-effective, and most useful to those that receive state services and taxpayers.

Major findings

Past commissions have gone into great detail to explain inefficiencies that cost the state money or hamper its ability to provide services, from examining an extra position in the university system's janitorial staff to restructuring entire divisions within departments. But the inefficiencies cited repeatedly through the decades persist at a broader level. These observations can be divided into three categories: structural, administrative, and personnel-related inefficiencies.

Structural inefficiencies stem from the arrangement of state agencies and the way that arrangement affects interactions between individual agencies and the executive branch, specifically the Governor's office. Past committees identified the major problems with the structure of the government to be a lack of communication between agencies and a lack of accountability to the executive branch.

Administrative efficiencies span several categories of everyday office duties, including accounting, payroll, the procurement of goods, and facilities management. The overarching root of inefficiencies in these areas is lack of centralization. Further consolidation of administrative services would offer the opportunity for specialization, take advantage of economies of scale, and provide the oversight necessary to control costs.

Personnel-related inefficiencies cover human resources, employee training, and workforce planning. In these areas, each report cited a lack of accountability for performance, below-average training, and the failure to develop a written plan to replace retiring workers with new recruits.

Although past commissions have made extraordinary attempts to quantify savings, with hundreds of itemized calculations, placing a cost on the exact amount of public money lost due to inefficiency proves challenging. While quantification adds the benefit of grounding these costs in reality and providing a sense of scale, ultimately these calculations may have distracted from the commissions' intentions by providing material for critics to nitpick and thus dismiss the reports. The Center recognizes that this is indeed a challenge faced by the various commissions, and therefore any numerical evidence presented in this report is intended solely to offer a sense of scale and not to pinpoint exact monetary losses or potential savings.

Structural inefficiencies

The State of New Hampshire oversees 153 agencies and departments. The governor, serving a two-year term, oversees these agencies with the Executive Council but does not appoint the members of the Council, who control the approval of agency heads. Governors also cannot remove a commissioner from office – even one he or she appointed – without the Council's approval. And the terms of agency heads are not necessarily coterminous with that of the governor's. Past commissions have cited several problems with this structure, which can result in limited communication and accountability between the independent entities of the state.

Governor's office and term

From the perspective of efficiency, a two-year term for the governor has two disadvantages: the inability to see projects through to completion, and a potential for communication clashes with agency heads who are not on the same term schedule and do not necessarily share priorities. The term structure may separate the governor from agency heads appointed during his or her time in office, forcing the next governor to work with agency heads he/she did not approve.

Recent legislation addressed this issue, in part. Senate Bill 81, introduced in the 2011 Legislative session and subsequently made law without the governor's signature, requires agency heads to step down six months after the expiration of their terms. While at first glance this would seem to provide a solution for structural inefficiencies, Governor Lynch argued that this mandate could halt projects in their tracks and that agency heads should be allowed to remain if approved by the governor. His perspective echoes the main finding of the reports – that the governor should hold the final authority to manage agency heads to increase their accountability, follow through on projects, and best facilitate affairs of the state.

Each efficiency review committee, for upwards of 70 years, has recommended that the governor's term be extended to four years to increase accountability and communication between the executive branch and individual agencies. However, the two-year term for governor remains deeply ingrained in New Hampshire's political culture and is unlikely to change. In fact, since 1990, resolutions to extend the governor's term have come before the Legislature ten times, but all lacked support of the three-fifths majority necessary to pass a state constitutional amendment.[1]

Agency structure

According to past commissions, the independently operating agencies create communication problems not only with the governor but also with each other. Why might this result in inefficiency? Reduced communication makes it hard to coordinate and properly align goals between agencies. Although some agencies may release annual reports, there is a lack of coordinated exchange of agencies' goals and planning efforts; without such cooperation the state cannot form a comprehensive long-term plan.

The state's infrastructure faces many challenges that may absorb costs without adequate preparation, such as the approaching demographic shift in personnel and the need for building and transportation maintenance.[2] Although the state does not have an estimate for the cost of deferred maintenance, the general result of these planning problems now is higher payouts in the future.

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[1] CACR21 (1990, 2006), CACR9 (1993, 2001, 2009), CACR1 (1997), CACR12 (1999, 2001) CACR11 (2007), CACR8 (2008)

[2] Government Performance Project: New Hampshire. PEW Center of the States, 2008.

Administrative inefficiencies

One of the most commonly repeated strategies for boosting efficiency lies in the consolidation and centralization of various administrative services. Centralization helps provide an overseeing authority, minimizes wasteful spending, and takes advantage of economies of scale. When various agencies conduct many of their own administrative functions, two inefficiencies result: duplication and lack of specialization. The reports cited several examples, detailed below.

Accounting and purchasing

For accounting operations, such as accounts payable and payroll, the costs of each agency carrying out these tasks are unnecessary positions and duplications of calculations. Certain accounting functions, though not all, are now available through the Department of Administrative Services (DAS), but the use of these services by the individual agencies is not mandatory. Each report echoed the previous commission's findings and recommendations to consolidate accounting operations.

The trailer bill to the 2012-2013 state budget, which became law on July 1, 2011, authorized the DAS commissioner to consolidate many of the business processing function – including accounting, collections and payroll – under a single agency. The state is currently in the process of hiring a consultant to assist with that effort. In its request for proposals, issued in October 2011, the state acknowledged that most business operations "are highly decentralized, with over 60 agencies maintaining a wide variety of specialized systems and processes."

The budget also empowers the DAS commissioner to centralize the state's disparate human resources departments within a single agency. The two consolidations, which originated in the Governor's budget proposal in January, are estimated to save $2.8 million by the end of FY 2013. While the success of this initiative is still far from certain, the state's ability to implement this task over the next two years may offer lessons for future efforts at administrative consolidation.

One of those additional efforts might be the state's purchasing practices, which have long been decentralized across individual agencies. When individual agencies conduct their own procurement, untrained workers may draw up contracts or requests for proposals (RFPs) that could perhaps be better negotiated or composed by a specialist. Additionally, the state can obtain a lower cost from a centralized bidding process rather than multiple individual bids. While statute requires agencies to procure non-personal commodities (particularly those over $2,000) through the state, the majority of service contracts do not flow through DAS. Contract procurement for operating and maintenance services alone accounts for 14 percent of the 2012-13 budget ($437.3 million). New equipment purchases account for 1.1 percent ($34 million). Since procurement accounts for such a large portion of the state budget, curbing monetary leaks in this area could result in significant savings.

The DAS offers the mechanism for Centralized Purchasing in the Bureau of Purchase and Property, and indeed many agencies are relieved to conduct procurement through this structure, which oversaw the purchase of $350 million in commodities in the last budget. But agencies continue to conduct their service procurement operations independently. A possible reason for individual procurement is preference for a particular vendor. The process of procuring services underwent examination by the Audit Division of the Legislative Budget Assistant (LBA) in March 2009. The LBA cited decentralization, fragmentation, and "lack of training and procurement-focused personnel in the state" as major concerns for maximizing state efficiency.

Facilities management

This lack of specialization and centralization also applies to the area of facilities management. For many state facilities, untrained workers from individual agencies draw up leases. A lack of centralized managing oversight means that state-owned or rented spaces could be vacant or poorly maintained without anyone aware of the drain on resources. This was the case for the Walker Building, a former mental institution used by the Department of Health and Human Services until it failed building codes. The building was left vacant for six years, until the Legislature formulated plans for demolition and then renovation, resulting in the wasted costs for a deteriorating unused space.

While this example may seem extreme, it highlights the importance of preventative maintenance and the need for a managing authority. The 2003 commission estimated for preventative maintenance a total five-year savings for the state of $1.8 million.

Centralized facilities management has the added benefit of the ability to recognize opportunities to consolidate office area, even across agencies. According to the 2003 commission's calculations, saved rental costs reached $6.3 million in five years. To provide a sense of scale, this savings would equal approximately 0.2 percent of the recently approved budget.

Since many of these reports have been released, the state has made efforts towards consolidation and centralization. Since the 1970s, separate divisions have been created within the DAS to handle agency needs (i.e. Bureau of Planning and Management, Bureau of Purchase and Property). Governor Lynch, in particular, emphasized the importance of centralized purchasing as one of his initiatives and encouraged DAS Commissioner Linda Hodgdon in 2009 to urge all agencies to direct their procurement through the DAS. This memo implies that different agencies continue to conduct their own contracting, purchasing, facilities management, and accounting. These individual agencies must also undergo a lengthy process through several layers of approval to confirm their contracts, leases, and purchases, adding another layer to the administrative process.

Currently, legislative discussion acknowledges the continued need for centralization. House Bill 635, introduced in session year 2011, proposed the development of a consolidation plan by the governor of agency functions involving legal activities, licensing, and procurement. The goal of such a plan would include a savings of $10 million in FY 2012 and $25 million in FY 2013, a total of 1.1 percent of the approved budget. This bill became law without the governor's signature in June. Additionally, the

DAS has added 160 state contracts to offer agencies, hoping to increase the appeal of the centralized procurement mechanism.

While most of these recommendations involve a strengthening of centralized administrative authority, some structural characteristics of authority can lead to inefficiencies. Particularly, the levels of approval required for agencies to spend funds or acquire contracts and purchases can prove quite time consuming, and the agencies may not function at maximum efficiency while awaiting approval. Senior managers cannot reallocate funds within their budget without undergoing review, and staff cannot spend in excess of $500 without approval. Each report since the 1970s suggests that, in the interest of time and efficiency, the layers of review for these allocated funds be streamlined and the purchasing limits be raised.

Legislation currently in the House would raise the threshold for the amount of money departments can transfer within accounting units without needing the approval of the Legislative Fiscal Committee or the Executive Council. Currently, law requires any transfers in excess of $2,500 be approved by those bodies. Close to 100 such transfers went before those bodies in FY 2011. The legislation under discussion, HB 269, would raise the amount needing approval to $75,000 and less. Supporters of the change say it will free up agencies from unnecessary paperwork and a time-consuming review and approval process.

Personnel inefficiencies

Expenditures for personnel account for approximately 20 percent of New Hampshire's budget; given this expense, the state risks wasting a large sum when too many opportunities to inefficiency go unseized. The 1991 report of the Task Force on New Hampshire State Government described "a lack of centralized authority to create standardized processes for recruitment, training, planning, and performance." A similar critique was noted in the subsequent 2003 report and the 2008 PEW report as a major efficiency downfall.

In 1989, the Division of Personnel was established under the umbrella of the Department of Administrative Services. Reports in the years following the creation of this "centralized authority," however, continued to cite a lack of consistency in management techniques, employee performance, and training of personnel.

The 1991 task force and the 2003 Commission to Assess the Operating Efficiency of State Government praised mandatory employee performance evaluations but criticized the lack of consequence for evaluations that are not tracked or linked to adjustments in compensation. The reports promoted performance-based compensation as an incentive for employees to produce high quality work and to potentially enroll in additional training courses. This recommendation would help address two issues simultaneously, as training of personnel presents another major weakness for the state.

The most recent state budget designates $4.4 million for employee training programs. This comes to approximately $70 per state employee. Insufficient training could ultimately result in overpayment of untrained workers and unnecessary costs to the state. The reports recommend that the state implement more mandatory training programs and increase incentives to enroll in these programs.

Personnel-related issues will only become more pressing in the future, given the high turnover of younger workers and approaching retirement of an older workforce. While the demographic trends of the aging state workforce have been acknowledged, the planning efforts to replace these aging employees are lagging. In New Hampshire state government, there is little incentive for job shadowing – in which one employee observes a worker in another position to gain a better understanding of the specific responsibilities it entails – since time spent job shadowing is unpaid. As a result, people tapped to fill vacant positions are not always necessarily well prepared for the post.

Since 1991, the committee reports have criticized a lack of long-term planning for personnel and recommended mandatory comprehensive workforce planning and succession planning, both on the agency and state-wide level. A 2008 survey by the Workforce Development Committee by the Division of Personnel found that only 12 percent of agencies had any written plan for personnel strategies for the future. The Division of Personnel continues to educate agencies about the importance of workforce planning, however if an agency's resources are already stretched thin, there may not be time to devote to a perceived lower priority.

A relevant example: performance-based budgeting

Although the operations of New Hampshire state government have evolved substantially over the past four decades, the broad inefficiencies outlined above span all areas of personnel, infrastructure, and administration. When recommendations to remedy these issues are routinely ignored, a question naturally arises: What are the barriers to addressing these individual problems when proposed legislation arises? An example of a recent legislative discussion now grappling with just such a question is the idea of performance-based budgeting.

According to past commissions, one of the most difficult issues in achieving maximum efficiency is the lack of meaningful performance evaluations for individual agencies. As early as the 1970 Task Force on Government Restructuring, commissions have raised the question of accountability for agency performance. Commissions since the 1991 Task Force on New Hampshire State Government Operations have found fault with the lack of performance standards for individual agencies and recommended an audit mechanism to hold agencies accountable for their performance.

While the LBA conducts audits of various agency processes, the agencies have no incentive to implement the recommended changes. The LBA itself does not follow up on their own recommendations to see if they have been implemented. Past reports recommended performance based budgeting – the process of measuring the effective and efficient outcomes of operations in accordance with an agency's specific goals – as a way of placing emphasis on quality outcomes while tracking cost.

In 1998, New Hampshire agencies were authorized to use performance-based budgeting and undergo auditing by the LBA every two years. This system would also encourage regular assessments of programs to identify potential areas of improvement. The hope for the state was that tracking the outcome of expenditures and adjusting accordingly would help improve future state planning. Two agencies – the Department of Transportation, Bureau of Turnpikes and the Department of Environmental Services – adopted the performance-based system.

But those pilot programs fell short of their goals, according to audits by the LBA several years later.[3] Auditors found that none of the pilot programs kept enough solid data on output measurements or concrete goals for performance to provide an accurate assessment, nor were employees trained in performance goals or measurements. Lack of a clear direction in the pilot programs led to "confusion and frustration" among employees, according to auditors. Ultimately, the LBA recommended halting the attempt at performance-based budgeting until it could be implemented under better planning, sufficient training, and clearer written goals and measurement standards.

Proposals for performance-based budgeting have been up for discussion in the Legislature in the most recent 2011 session. Two bills sought to introduce aspects of performance measurement into the state's budgeting process. After several months of review, the House Finance Committee in late October passed legislation requiring agencies to adopt a "performance measurement system" for each state program as part of the biennial budgeting process. That measurement system would include an explicit statement of "the outcomes the program seeks to achieve, and the specific outcome measures that the program intends to use to track performance."

The legislation, HB 618, also creates a new commission, which includes both legislative and executive branch representatives, tasked with overseeing the development of performance-based measurement systems by each state agency. The commission is supposed to begin its work in 2013 and would be ended within five years. Agencies are required to appoint personnel charged with guiding and reporting on the development and implementation of the performance measurement systems. The commission would recommend ways to integrate the performance measurements into the budget process, but there is no formal mechanism or requirement that agencies or legislators do so.

This legislation attempts to address several frequent obstacles in past efforts to implement performance-based budgeting in New Hampshire. First, it seeks to create a regular system for collecting the kind of data needed to form a comprehensive assessment of performance. Second, in setting a five-year horizon, the legislation recognizes that some passage of time is generally needed to gather sufficient and meaningful data to make performance measures a useful budget tool. This slower timeframe may help the avoid

[3] Those audit reports can be found here:
http://www.gencourt.state.nh.us/lba/FinancialReports/pbbtpikes2001.html
http://www.gencourt.state.nh.us/lba/PerformanceReports/envsvc_2002p.html

the lack of formal plans and design that hampered the last attempt at performance-based budgeting in New Hampshire.

But the new legislation does not specify how agency employees will be trained to develop consistent goals and measurement standards to meet the new programs' goals – one of the main flaws identified by LBA auditors a decade ago. Indeed, the first observation in the LBA's 2001 audit of the Bureau of Turnpikes was that "there has been confusion and uncertainty during the implementation of performance-based budgeting that can be attributed to lack of training, lack of detailed policies and procedures, as well as breakdowns in communication and understanding of the information that currently exists to guide performance-based budgeting agencies."

While legislative and executive branch support for performance-based budgeting has remained strong over the years, the training component remains unaddressed. Although training of staff would present a small cost considering the potential benefits, this investment has proven a sufficient hurdle to efforts thus far. Any new attempt would do well to address that.

A few lessons from other states

New Hampshire is certainly not the only state that has sought to inject greater efficiency into how it operates its state government. The recent recession and drop in state revenues across the country have spurred new approaches to saving money and streamlining state government functions. A handful of examples may serve as models for New Hampshire.

Fostering a culture of evaluation

Encouraging a culture of constant, rigorous evaluation is a baseline for integrating efficiency into government operations. Among the states, Texas offers one method that is fully integrated into the budget process.

Texas' Legislative Budget Board is required every other year to produce an assessment of state government efficiency and effectiveness. These "Effectiveness and Efficiency Reports," presented to the Legislature at the beginning of each two-year session, organize recommendations by functional area and detail the potential fiscal impact – both short-term and long-term – of those recommendations.

While there is no requirement that the recommendations be considered by lawmakers, state statute suggests they be reviewed in connection with the budget process. The timing of these reports, released at the opening of the budget season, and their clear organization, increase the likelihood that they will catch the attention of budget writers.

Changes in purchasing

As discussed earlier, purchasing is a potential target for efficiency efforts. Other states offer examples of how this area of government activity can produce savings. In Minnesota, a central procurement agency aggregates demand by developing multiple statewide enterprise contracts. In Virginia, state agencies and the public university system cooperate to issue joint purchasing contracts. Such practices increase the overall size of contracts and give the states more leverage in purchasing.

Both states also focus on strategic training in procurement for state officials at all levels – a lack that a recent LBA audit specifically addressed in New Hampshire's purchasing practices. And the states have streamlined the procurement process by promoting the use of purchase charge cards for small purchases, thereby cutting down on invoices and other steps.[4]

[4] More information about these two states' efforts can be found at "States Buying Smarter," the PEW Center on the States, May 2010.